Denison

Six Months Report 1982

Denison Mines Limited

Report for the Six Months Ended June 30, 1982

To The Shareholders:

Consolidated net earnings for the first six months of 1982 were $17,397,000 or $0.95 per share. In the comparable period last year earnings were $37,607,000 equal to $2.06 per share.

In 1982 earnings benefited from higher uranium deliveries and oil and gas production. However, a number of factors combined to lower earnings from the level achieved in the first half of 1981. Gains realized on the sale of portfolio investments and interests in mineral properties declined substantially in the 1982 period. At the same time higher interest, depreciation and uranium production costs were incurred.

A number of major developments since the beginning of the year are of positive significance to your Company:

- The Prinos/South Kavala oil and gas operations attained production at design capacity levels with oil, gas and sulphur being produced for sale within Greece.
- The initial repayment was made on July 15, 1982 of a part of the principal of the project loans previously arranged for the Prinos/South Kavala development.
- Major steps were completed with respect to financial planning in order to support on an appropriate basis the major growth projects which your Company has undertaken, as follows:

(a) The Company's bank indebtedness is being restructured by creating a revolving long-term bank loan of $150 million repayable over the period from June 30, 1983 to 1989. This transaction will reduce current bank indebtedness and thereby strengthen the Company's working capital position.

(b) Agreements were reached with Canadian banks regarding the financial facilities required by Denison to support its portion of the recourse debt to be incurred by Quintette Coal Limited and its portion of the equity contribution to be made by the shareholders of Quintette.

(c) In connection with these agreements a collateral floating charge debenture in the amount of $625 million is being given over assets of the Company together with specific charges or assignments in respect of certain assets of the Company. Cash dividends may be curtailed in the future if certain financial tests and ratios are not met.

- Quintette Coal Limited arranged project financing with a group of Canadian, Japanese and French banks to bring the Quintette coal project in northeastern British Columbia into full production at the rate of 6.3 million metric tons per annum with first production to commence at the end of 1983. This financing is expected to be in place about September 30, 1982.

Uranium

Elliot Lake: Full design production levels are being met at Elliot Lake. The expansion at the No. 1 and No. 2 shaft areas is complete and underground development at the Stanrock/Can-Met areas is progressing with completion expected by 1985. Noteworthy as well was the strengthening of the Elliot Lake workforce by the hiring of substantial numbers of highly skilled personnel. In June, the hydrometallurgical plant received the first deliveries of ore from the rehabilitated Stanrock/ Can-Met areas.

A total of 3,044,209 pounds of uranium oxide was produced from 2,031,538 tons of ore averaging 1.62 pounds per ton. This compares most favourably with production in the first six months of 1981 of 2,206,275 pounds from 1,332,919 tons averaging 1.81 pounds per ton. Average grade for the full 1981 year was 1.68 pounds. Ore hoisted totalled 1,976,614 tons during the first six months of 1982, an increase of 17.7% from the same 1981 period.

Management emphasis continues to be placed on cost reduction. Increased volume of ore through the mill and improved productivity of the Denison workforce have helped to offset in part substantial increases in wage and material costs. A key element in the cost reduction program is the maintenance of the grade of ore processed in the mill at the current level through selective mining techniques. In addition, tests are being conducted on a process to extract uranium by heap leaching lower grade ore at the mining face.

Completion of a service decline in June from surface to the underground workings will provide access for planned recovery of a high grade pillar area as well as improving movement for mechanized equipment. These should assist in cost reduction.

Other developments at the mine included completion of the Southwest Ventilation Raise to provide 2.5 million cubic feet of

Red Deer pit has been demonstrated to contain sufficient mineable metallurgical coal reserves to meet the annual production target of 4 million tonnes for 20 years, permitting considerable cost savings from the previous plan which was based on concurrent operation of two open pit mines.

Dentherm Resources Limited: The feasibility study for the Coalspur thermal coal property in Alberta is well advanced and is expected to be completed by the end of the year. Technical studies have determined that initial production of 5 million tonnes annually can be sustained by mining the Robb block, covering about 2,541 hectares, for at least 20 years. The remainder of the Coalspur property has large additional reserves available for future production.

The Alberta government has approved the preliminary mine development proposal and application is to be made to the Energy Resources Conservation Board for a mining and development permit and a mining license.

Negotiations are proceeding for additional sales of coal and equity participation in the project. Coal sales agreements were previously concluded with Taiwan Power and Charbonnages de France.

Wildhay: This metallurgical coal property consists of 16 Alberta Crown leases covering 10,741 hectares, located 40 kilometres west of Hinton, Alberta. Denison as Manager and coal sales Agent is carrying out a geological field program with a report to be completed by the end of 1982. Forming part of the report will be coal quality data, geological reserve calculations and selection of potential mining areas. Denimil Energie und Mineral AG has a 10% undivided interest in the leases.

Potash

The exploration shaft was completed to its final depth of 2,738 feet in early May, 1982 concurrent with the excavation of a station and loading pocket in the anhydrite bed below the salt. A cored hole drilled 1,450 feet laterally from the shaft area along the intended exploration excavation confirmed that no unusual conditions should be encountered. Lateral examination of the potash deposit started with the boring machine and shuttle cars in early June. A feasibility study is being prepared and is expected to be completed before the end of 1982 following results from the underground lateral exploration and definition drilling phase now underway.

Minerals Exploration

Denison's exploration efforts continue at a reduced level. In Canada, participation was extended in four uranium exploration programs in northern Saskatchewan. A former gold producer in northwestern Ontario is being examined. In the U.S., drill testing of several base and precious metal massive sulphide targets is being carried out in Wisconsin. Exploration programs are underway for precious metals in Nevada and Montana, uranium in Washington, and molybdenum in Montana. Several known mineral deposits are being evaluated to determine their potential as acquisition opportunities.

Lake Ontario Cement Limited

The severe economic recession resulted in a consolidated net loss of $2,741,000 (63.6 cents per share) in the first half of 1982, compared with a profit in the corresponding 1981 period of $345,000 (8 cents a share). Consolidated sales of $42,073,000 for the first six months compared with $44,755,000. The results reflect the impact of a significant decline in construction activities in all market areas in the Great Lakes region, resulting in a sharp drop in demand for cement and to a lesser degree for concrete products. In June, Lake Ontario Cement obtained a $15 million 10-year term loan from a major Canadian bank which will reduce current bank debt and strengthen working capital.

We wish to thank our shareholders and employees for their continued support and interest in the progress of the Company.

On behalf of the Board of Directors

Stephen B. Roman
Chairman and President

Toronto, Canada
July 16, 1982.

air per minute for mining areas below No. 2 Shaft to the southern boundary. At No. 3 Shaft, which services the Stanrock/Can-Met areas, planning was completed for an underground railway haulage system. Preparations were made at Can-Met to convert the service shaft into a major ventilation exhaust raise.

Australia: Detailed discussions and negotiations continue with the aboriginal owners regarding royalties and other matters covering the Koongarra uranium property located in the Northern Territory of Australia.

Oil & Gas

Greece: Daily sales production at the Prinos/South Kavala development in the first six months of 1982 averaged 21,000 barrels of oil, 1.7 million cubic feet of gas and 300 tons of sulphur. Sales of gas and sulphur were reduced by a strike of several weeks at the nearby plant of a major customer. Injection of water to support the 21,000 barrel level averaged 23,000 barrels daily in the first six months. Two additional water injection wells are being drilled within the Prinos field to assist in maintaining the planned oil production of 25,000 barrels daily.

In late April, the Prinos/South Kavala development attained a consistent level of production, allowing commencement of certain completion tests which will permit conversion of the project loans and a portion of the supplementary project financing facility to non-recourse status. The operations portion of the completion tests is to last 90 days and as of mid-July was 85% concluded. During this period oil production has averaged 23,400 barrels per day and water injection 32,600 barrels per day, both levels being in excess of those specified in the completion tests.

For the first two weeks of July, oil production averaged 26,500 barrels daily and water injection 33,800 barrels per day.

An appraisal well is being drilled in the Prinos development area one mile northeast of the Prinos field by the Wodeco III, a floating drillship, to evaluate shows of sweet oil obtained in a 1976 exploratory well. This appraisal well has reached 8,800 feet and has encountered significant shows of sweet oil and gas. Several additional prospects which merit drilling have been identified by a 550-mile seismic program completed in the Contract areas east and west of the Island of Thassos. The contract with the Wodeco III provides for drilling of up to three wells during 1982 and may also be extended to include further wells.

Spain: At mid-July oil production from the Casablanca offshore field was 18,200 barrels daily. Oil production for the first six months of 1981 averaged 12,200 barrels per day.

Development drilling from the fixed platform is continuing. The first development well drilled from the platform is producing at 2,200 barrels daily with cumulative oil production to date of 400,000 barrels. Production from this well has been restricted as the oil pay zone was thinner than expected. The two previous seafloor wells which were producing from temporary facilities located on the Afortunada semi-submersible rig have been connected to the fixed platform.

Full oil production is expected to be reached in the first half of 1983, several months later than previously planned. A three-dimensional seismic program is to be conducted over the oil field to assist in determining whether more than three development wells are required.

Canada: Canadian production averaged 3,300 barrels of oil per day in the first half of 1982, down from the 3,530 barrel level during the same period in 1981. Natural gas production averaged 13.2 million cubic feet per day, a considerable improvement over the previous 8.4 million daily average. Continuing crude oil imports into eastern Canada restrict oil production in the western Canadian provinces. Recent revisions in the Alberta Provincial Government budget and modifications to the National Energy Program have increased the oil price netback to Denison.

During the first six months of 1982, Denison participated in the drilling of eight new development wells at Edson and one at Bigoray in Alberta. Production from these wells qualifies for higher new oil prices. An exploratory well in the Deep Valley (Simonette) area was unsuccessful.

United States: Offshore Louisiana, in the Gulf of Mexico, eight wells are currently producing at a combined rate of 5.2 million cubic feet of gas per day net to Denison on West Cameron 624 and 625 blocks. Denison's share of production from the Ship Shoal 320 block is 4.0 million cubic feet of gas per day.

Onshore Louisiana, in Pointe Coupee Parish, an oil well drilled in the Wilcox formation is on test production. In California, a 15,500 foot well in the West Montalvo area encountered mechanical difficulties and is being plugged back for partial redrilling in order to continue the evaluation program.

Philippines: An exploratory well located in the Reed Bank area, offshore Palawan Island, was drilled to a depth of 8,900 feet. Due to mechanical difficulties the well was abandoned and the prospect has not yet been evaluated. The target was 12,500 feet where hydrocarbons were anticipated in the Tertiary and Cretaceous formations based on tests taken on nearby wells.

United Republic of Cameroon: A successful gas and condensate well, Matanda 2X, was drilled on Permit PH-33, 2 miles from the 1980 discovery well. Denison has a 14.4% interest. Both wells are on the same structure and produce from several similar sandstone reservoirs. The two wells are shut in pending further developments.

Guyana: Obligations for the first year of the exploration license have been met with completion of a 375-mile supplemental seismic survey, the results of which are being interpreted.

Coal

Quintette Coal Limited: Denison will increase its interest in Quintette Coal Limited to 50% in conjunction with the purchase of a 10% equity interest by the Japanese steel industry and a 5% interest by Sumitomo Corporation. The shareholders of Quintette will therefore now be: Denison Mines — 50.00%, Japanese companies — 37.99% and Charbonnages de France — 12.01%. Denison is the exclusive manager of the business and operations of Quintette.

Additional contracts were signed in June, 1982 for sales of 20 million tonnes of Quintette thermal coal to Nippon Kokan K.K. and Mitsui Mining Co. Ltd. during the first 15 years of the project. The completion of these contracts means that Quintette has sold all of its annual production of 6.3 million tonnes of coal for the first 15 years of mine operation.

The pace of activity is accelerating rapidly on this major northeastern British Columbia development. Engineering has progressed as required to permit critical construction contracts to be awarded and purchase orders for equipment to be placed in accordance with the schedule required to achieve the first shipment of coal from the property in December, 1983.

Construction contracts totalling $102.6 million have been awarded and $53.5 million of process plant and mining equipment has been ordered. The first of the mining equipment has been delivered and is being used in the pre-stripping operation.

Since the initial authorization of expenditure in July, 1981 by the Board of Directors of Quintette Coal Limited, work has been concentrated on preparations required to enable full utilization of the 1982 construction season. Accommodation for 1,400 workers has been put in place, access roads and bridges completed, building and work sites cleared and foundations constructed for important buildings.

Development activity has accelerated following the 1982 spring break-up. There are currently 700 construction people on site. It is anticipated that construction employment will peak at 1,400. Present activity includes: construction of foundations and erection of structural steel at the preparation plant; construction of clean coal silos; erection of Sheriff pit maintenance shop structural steel; supply of ready mix concrete; and pre-stripping of 1.7 million cubic meters of waste material from the Sheriff pit.

Concurrent with this activity at the Quintette property, construction of a new B.C. Rail branch line to the project is proceeding on schedule. At the new port on Ridley Island, critical contracts have been awarded and construction is proceeding. Other infrastructure facilities including power, highway access and a townsite are also proceeding on schedule. Rail and port agreements covering shipment of Quintette coal from the mine and transfer to ships were executed in March, 1982.

The British Columbia government on June 17, 1982 gave approval to Stage II of the Quintette coal project. Quintette Coal Limited is now completing arrangements with provincial agencies on the specific licenses, permits and approvals needed prior to coal production.

Belcourt: The final feasibility study on this joint venture between Gulf Canada Resources Inc. and Denison is expected to be complete near the end of 1982. The

Denison Mines Limited

Summary of Consolidated Earnings (Unaudited)	Six Months Ended June 30	
	1982	1981
Gross revenue	$303,168,000	$175,969,000
Production, exploration and administration costs	289,765,000*	178,736,000*
	13,403,000	(2,767,000)
Other income	10,496,000	58,234,000
Earnings before taxes and minority interest	23,899,000	55,467,000
Income and mining taxes	7,773,000	17,700,000
Earnings before minority interest	16,126,000	37,767,000
Minority interest	(1,271,000)	160,000
Net earnings for the period	$ 17,397,000	$ 37,607,000
Net earnings per share	$ 0.95	$ 2.06

*Included are: depreciation, depletion and amortization — 1982 $48,227,000, 1981 $14,976,000; interest — 1982 $41,532,000, 1981 $11,317,000; and litigation settlements of $17,600,000 in 1981.

Consolidated Statement of Changes in Financial Position (Unaudited)		
SOURCES OF WORKING CAPITAL		
Provided from operations	$ 52,129,000	$ 14,644,000
Increase in advances on concentrate sales contracts	17,899,000	30,290,000
Issue of long-term debt	34,446,000	125,560,000
Net proceeds on sale of long-term investments and interests in mineral ventures	45,106,000	106,929,000
Other	180,000	—
	149,760,000	277,423,000
USES OF WORKING CAPITAL		
Additions to fixed assets	124,779,000	192,683,000
Reduction in advances on concentrate sales contracts	21,221,000	12,000,000
Purchase of long-term investments	89,533,000	116,965,000
Dividends	18,272,000	18,273,000
Reduction of long-term debt	15,536,000	5,259,000
Dividends to minority shareholders of Lake Ontario Cement Limited	499,000	499,000
Other	—	2,585,000
	269,840,000	348,264,000
Decrease in working capital	$120,080,000	$ 70,841,000

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